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INTERNATIONAL FINANCE CORPORATION

JULY 20, 1955.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. SPENCE, from the Committee on Banking and Currency, submitted the following

R E P O R T

[To accompany S. 1894]

The Committee on Banking and Currency, to whom was referred the bill (S. 1894) to provide for the participation of the United States in the International Finance Corporation, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

GENERAL STATEMENT

PURPOSE OF THE BILL

The bill authorizes the President to accept membership on behalf of the United States in the International Finance Corporation, authorizes the payment of the United States subscription of \$35,168,000, contains several provisions of law necessary to make our membership effective, and provides for the coordination of the United States representatives to the IFC by the National Advisory Council on International Monetary and Financial Problems. The bill requires the approval of Congress for certain major actions on behalf of the United States with respect to the IFC, namely, voting for an increase in capital or subscribing to additional stock, accepting amendments to the articles of agreement, and making any loan to the Corporation.

HISTORY AND DESCRIPTION OF THE INTERNATIONAL FINANCE CORPORATION

The International Finance Corporation has been under discussion since 1951, and in November 1954 the United States administration announced its support of this proposal. On December 11, 1954, the General Assembly of the United Nations adopted a resolution by a vote of 50 to 0 with 5 abstentions, endorsing the IFC and requesting the

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International Bank for Reconstruction and Development to take steps to bring the Corporation into being. On April 11, 1955, the executive directors of the International Bank approved, for submission to member governments, the articles of agreement of the IFC, and an accompanying explanatory memorandum, both of which were then transmitted by the International Bank to member governments for consideration.

The International Finance Corporation will be an international organization, whose members must be members of the International Bank. It will be affiliated with the International Bank through common membership in their Boards of Directors and Boards of Governors. The President of the International Bank will be the Chairman of the Board of the IFC, and the management and operations of the two institutions will be closely coordinated in the interest of achieving maximum efficiency with a minimum staff. The authorized capital of the IFC will be \$100 million. The amount available for subscription by each member will be proportionate to that member's subscription to the capital stock of the International Bank.

The objective of the International Finance Corporation will be to encourage the growth of private enterprises in its member countries, particularly the less developed areas, by—

Investing in productive private enterprise, in association with private investors without government guaranties of repayment where sufficient private capital is not available on reasonable terms;

Serving as a clearing house to bring together investment opportunities, private capital, and experienced management;

Creating conditions conducive to and otherwise stimulating the productive investment of private capital.

The International Finance Corporation is intended to provide venture capital but is not authorized to invest in capital stock or to assume responsibility for managing an enterprise in which it has invested.

The International Finance Corporation will revolve its funds by selling its investments to private investors whenever it can appropriately do so on satisfactory terms. Such transactions in the markets of the United States will not be exempt from the applicable laws administered by the Securities and Exchange Commission. Securities issued or guaranteed by the Corporation will be protected against discriminatory taxation but will have no special tax privileges. Employees of the IFC will enjoy privileges and immunities identical to those granted to the employees of the International Bank. No employee will be exempt from taxation on his salary by his own government. Accordingly, employees who are citizens of the United States will be fully subject to our tax laws.

NEED FOR ESTABLISHING THE INTERNATIONAL FINANCE CORPORATION

On May 2, 1955, the President recommended to the Congress that legislation be enacted providing for United States participation in the International Finance Corporation. The President stated:

The entire free world needs capital to provide a sound basis for economic growth which will support rising standards of living and will fortify free social and political institutions. Action to that end by cooperating nations is essential. In its own enlightened self-interest, the United States is vitally concerned that

capital should move into productive activities in free countries unable to finance development needs out of their own resources.

Government funds cannot, and should not, be regarded as the basic sources of capital for international investment. The best means is investment by private individuals and enterprises. The major purpose of the new institution, consequently, will be to help channel private capital and experienced and competent private management into productive investment opportunities that would not otherwise be developed. Through the Corporation we can cooperate more effectively with other people for mutual prosperity and expanding international trade, thus contributing to the peace and the solidarity of the free world.

On July 11 and 14, 1955, public hearings on H. R. 6228, which is a companion bill to S. 1894, were held by your committee. Secretary of the Treasury Humphrey, Assistant Secretary of State Waugh, President of the Export-Import Bank Edgerton, and representatives of the American Farm Bureau Federation, the Committee for a National Trade Policy, and the Washington Board of Trade testified in support of the bill. Letters and statements in support of the bill were received from the Secretary of Commerce, the Acting Secretary of Agriculture, the American Bankers Association, the Investment Bankers Association of America, and the United States Council of the International Chamber of Commerce. The president of the National Foreign Trade Council filed a statement in opposition to the proposal.

There is almost universal agreement that increased investment and development would be desirable in less developed areas of the free world. Many benefits would result to the people of those areas through raising their standard of living, often tragically low; the United States could anticipate increasing consumption of American agricultural and industrial products; and the entire free world would gain by relaxation of the discontent and unrest which make a fertile field for Communist activity.

It is hoped that by channeling private investment into the less developed areas the International Finance Corporation will lessen the need for public grants and loans.

Currently private United States and other capital flowing into the underdeveloped regions is concentrated in relatively few areas and industries, particularly oil and mining. Private capital for general industrial and commercial purposes in these areas is generally conceded to be inadequate.

One of the problems of the underdeveloped regions is the low rate of capital formation. What capital there is, all too frequently is invested in the more highly developed areas. It is hoped that the examples of productive and profitable enterprises which the IFC will help to start in these areas will generate local confidence and increase the available supply of local capital.

OPERATIONS OF THE INTERNATIONAL FINANCE CORPORATION

The International Finance Corporation would stimulate private capital investment in several ways. The use of its own funds, multiplied several times by the private capital with which it would be associated, would be the most direct form of stimulation. Secretary Humphrey gave the following example of the kind of situation in which the direct financing authority might be used:

A manufacturer wishes to open a jute plant in Asia. He needs machinery and equipment from the United States to start operations. He has some money of his own to invest but has been unable to raise the balance in the local capital market. The Export-Import Bank, upon being approached for a loan to finance the sale of United States equipment for the project, finds that there is insufficient equity in the operation. The prospective borrower then goes to the IFC which advances the necessary equity capital. This allows the Export-Import Bank to finance the sale of United States equipment. The convertible debentures purchased by the IFC from the jute manufacturer would be behind the Export-Import Bank loan but ahead of the manufacturer's own investment. In short, the Export-Import Bank makes a loan it couldn't otherwise make, the jute manufacturer goes into business, and, if he succeeds, the IFC sells the convertible debentures at a profit and is able to loan the money to someone else.

The International Finance Corporation will also help to create conditions conducive to the flow of private investment into the productive investment in member countries. By virtue of its international status and its affiliation with the International Bank it may well be in a position to lead governments exercising restrictive practices to realize the wisdom of adopting an attitude more conducive to the flow of private investment. The IFC would serve as a forum for a discussion of problems of private investors in member countries.

The International Finance Corporation would also serve as a clearinghouse to bring together investment opportunities, domestic and foreign private capital, and experienced management. A clearinghouse of this sort on a wide international basis with direct access to the world's principal capital markets could be extremely useful.

The International Finance Corporation would be of particular importance to small- and middle-sized firms and investors. In the first place small enterprises in the foreign field frequently need investment funds beyond their own resources and beyond what they can raise in normal banking channels. It is expected that the IFC will cooperate with private venture capital organizations in the financing of particular enterprises. Since the IFC can operate only in conjunction with private investors, the IFC would encourage, and not compete with, private investment. The experience of the IFC in dealing with foreign problems will be available to assist small firms and investors directly and will render a valuable service for encouraging private investment abroad.

RELATIONSHIP OF INTERNATIONAL FINANCE CORPORATION TO EXISTING LENDING INSTITUTIONS

The urgent need for increased private investment in the less developed areas cannot be met completely by either the International Bank or the Export-Import Bank. In general, the ability of the International Bank to make loans to private enterprises is restricted by the requirement in its charter that its loans must be guaranteed by an official agency of the country where the project is located. Furthermore, the International Bank's ability to finance private enterprise is affected by the fact that the bank makes only fixed-interest loans.

The role of the Export-Import Bank is primarily to offer banking facilities for exports or imports from the United States and in appropriate cases capital for investment on a loan basis. Both the Export-Import Bank and the International Bank make loans on the basis of a reasonable expectation of repayment, rather than supplying venture capital.

During the hearings some concern was expressed by several members of the committee that the operations of the Export-Import Bank and the International Bank might be affected or supplanted by the International Finance Corporation. In this connection, the Government witnesses pointed out that the activities of the International Finance Corporation are not intended to replace in any sense the activities of the two institutions but rather to augment and support their general purposes. As the example by Secretary Humphrey which is cited above indicates, there should be fruitful opportunities for cooperation between the IFC and the existing institutions.

The bill makes the provisions of section 4 of the Bretton Woods Agreements Act with respect to the International Bank applicable to the Corporation. That section created the National Advisory Council on International Monetary and Financial Problems, (1) to recommend general policy directives to the President for the guidance of the United States representatives to the International Monetary Fund and the International Bank, and United States agencies making foreign loans or participating in foreign financial, exchange, or monetary transactions; (2) to coordinate the policies and operations of these officials and agencies; and (3) to determine, under the general direction of the President, whether or not to give or refuse the approval, consent, or agreement of the United States when it is required before any act may be done by the fund or the bank.

The Government witnesses, including the Secretary of the Treasury, who is the Chairman of the National Advisory Council, stated that the Council would be alert to preclude any infringement by the International Finance Corporation on the activities of the Export-Import Bank. In this respect your committee desires to instruct the Chairman and members of the National Advisory Council that they should be constantly vigilant and exert every effort to assure that there will be no infringement by the International Finance Corporation on the activities of the Export-Import Bank. Your committee believes that the United States Governors, Directors, or alternates to the International Finance Corporation should not vote for any loan which may properly be made by the Export-Import Bank. In view of the fact that the President of the Export-Import Bank is a member of the National Advisory Council and can readily ascertain whether the Export-Import Bank could properly make a loan presented to the International Finance Corporation, your committee expects the President of the Export-Import Bank to alert the National Advisory Council in this respect. In this manner the National Advisory Council should at all times be in a position to instruct the United States representatives to the International Finance Corporation so that they will not vote for any loan that can properly be made by the Export-Import Bank.

ANALYSIS OF THE ARTICLES OF AGREEMENT OF THE INTERNATIONAL
FINANCE CORPORATION

ARTICLE I—PURPOSE

The purpose of the International Finance Corporation is—
to further economic development by encouraging the growth of productive private
enterprise in member countries, particularly in the less developed areas.

In carrying out this purpose, the articles provide that the Corpora-
tion shall—

(i) In association with private investors, assist in financing the establish-
ment, improvement, and expansion of productive private enterprises which
would contribute to the development of its member countries by making
investments without guaranty of repayment by the member government
concerned, in cases where sufficient private capital is not available on reason-
able terms;

(ii) Seek to bring together investment opportunities, domestic and foreign
private capital, and experienced management; and

(iii) Seek to stimulate, and to help create conditions conducive to, the
flow of private capital, domestic and foreign, into productive investment in
member countries.

ARTICLE II—MEMBERSHIP AND CAPITAL

Membership in the International Finance Corporation is limited
to members of the International Bank. The 100,000 shares of stock
will provide a total capital of \$100 million for the IFC. The initial
subscriptions are payable in full in gold or United States dollars
within 30 days after IFC begins operations. Shares of stock shall
not be pledged or encumbered and shall be transferred only to the
IFC. A schedule attached to the articles specifies the number of
shares and amount available for subscription in each country, ranging
from the United States with 35,168 shares and a subscription of
\$35,168,000 and the United Kingdom with 14,400 shares and a
subscription of \$14,400,000, to Nicaragua with 9 shares and a sub-
scription of \$9,000, and Panama with 2 shares and a subscription
of \$2,000.

Countries which do not become original members by joining the
International Finance Corporation before December 31, 1956, may
join later under terms prescribed by IFC, and the capital stock may
be increased by majority vote by as much as 10,000 shares in order
to make possible such subsequent memberships. A three-fourths ma-
jority of the total voting power may increase the capital stock of
IFC, in which event members may subscribe to their proportionate
share of the increase.

ARTICLE III—OPERATIONS

The Corporation is authorized to make investments of its funds in
productive private enterprises in the territories of its members. It is
prohibited from investing in capital stock, but otherwise may make
investments of its funds in any form considered appropriate in the
circumstances, including investments convertible to capital stock by
a holder other than the International Finance Corporation. The Cor-
poration is prohibited from exercising the right to subscribe to or
convert an investment into capital stock. In the event of actual or

threatened default, insolvency, or similar situations jeopardizing the investment, IFC may take any action necessary to protect its interests.

The articles set forth certain principles which are to guide its operations:

- (i) The Corporation shall not undertake any financing for which in its opinion sufficient private capital could be obtained on reasonable terms;
- (ii) The Corporation shall not finance an enterprise in the territories of any member if the member objects to such financing;
- (iii) The Corporation shall impose no conditions that the proceeds of any financing by it shall be spent in the territories of any particular country;
- (iv) The Corporation shall not assume responsibility for managing any enterprise in which it has invested;
- (v) The Corporation shall undertake its financing on terms and conditions which it considers appropriate, taking into account the requirements of the enterprise, the risks being undertaken by the Corporation, and the terms and conditions normally obtained by private investors for similar financing;
- (vi) The Corporation shall seek to revolve its funds by selling its investments to private investors whenever it can appropriately do so on satisfactory terms;
- (vii) The Corporation shall seek to maintain a reasonable diversification in its investments.

Funds received by or payable to the International Finance Corporation in respect to its investments are not exempt by reasons of the articles from generally applicable foreign exchange restrictions, regulations, and controls. The IFC is authorized to borrow funds and to furnish security therefor but must, before making a public sale of its obligations in the markets of a member, obtain the approval of that member and the member in whose currency the obligations are to be denominated. It may invest its funds not needed for financing and its pension or other similar funds; and may guarantee securities in which it has invested in order to facilitate their sale, and exercise such powers incidental to its purpose as is necessary to its purpose.

The Corporation shall not interfere in the political affairs of its members, and its decisions shall be based only on relevant economic considerations.

ARTICLE IV—ORGANIZATION AND MANAGEMENT

The articles provide that the members of the bank's Board of Governors and their alternates, and the members of the bank's Board of Executive Directors and their alternates shall exercise ex officio the same offices in the International Finance Corporation, if the countries they represent in the bank become members of the Corporation. The President of the bank is Chairman of the Board of Directors of the IFC. The President of IFC is appointed on the recommendation of the Chairman and the concurrence of the Board of Directors of IFC. All powers of the Corporation are vested in the Board of Governors and they may delegate to the Board of Directors authority to take all but certain specified major actions. Each member has 250 votes plus 1 additional vote for each share of stock held.

The International Finance Corporation is an entity separate and distinct from the bank and its funds must be kept separate and apart from the International Bank. IFC cannot lend to or borrow from the International Bank. However, it is authorized to make use of the facilities, personnel, and services of the International Bank. Its

principal office is to be in the same locality as the principal office of the International Bank—Washington, D. C.

The Board of Governors is authorized to distribute shares of IFC's net income and surplus after making provisions for the reserve to be distributed in proportion of the capital stock held by the members.

ARTICLE V—WITHDRAWAL AND SUSPENSION

The articles provide that a member may at any time withdraw from the International Finance Corporation. A member may be suspended by IFC, if it has failed to fulfill any of its obligations to IFC. A member of IFC which is suspended from membership in, or ceases to be a member of, the International Bank shall automatically be suspended from membership in, or cease to be a member of, IFC. The articles provide for the repurchase by the IFC of the stock subscribed by the former member.

The articles also provide for suspension of the operations of the IFC and its orderly liquidation.

ARTICLE VI—STATUS, IMMUNITIES, AND PRIVILEGES

The articles give to the International Finance Corporation the same status, immunities, and privileges given to the International Bank under the Bretton Woods Agreements Act. These are as follows:

1. The Corporation will have full juridical personality, including the ability to make contracts, to acquire and dispose of all kinds of property, and to sue in United States or other courts.

2. It will be subject to suit where it has an office or an agent to accept service of process or where it has issued or guaranteed securities, but its property cannot be seized or attached except after a final judgment against it.

3. The property and assets of the Corporation will be immune from search, requisition, confiscation, expropriation, or any other form of seizure by executive or legislative action.

4. The archives of the Corporation will be inviolable.

5. All property and assets of IFC are to be free from restrictions, regulations, controls, or moratoria of any nature, to the extent necessary to carry out the articles and subject to the provision (which is not contained in the bank articles) that investments by IFC shall not thereby be exempted from generally applicable foreign exchange, restrictions, regulations, and controls.

6. The officials and employees, including Governors and Directors, will be immune from legal process with respect to their official acts, and will receive the same treatment as comparable employees in the diplomatic service of their own country.

7. The Corporation will be immune from taxation, and each officer and employee will be immune from taxation on his salary and emoluments by any country other than his own. Securities issued or guaranteed by the Corporation will be protected against discriminatory taxation, but will have no special tax privileges.

8. If the Corporation winds up its affairs and distributes its assets to members, they would have the same privileges and immunities as to those assets that the Corporation had before distribution.

ARTICLE VII—AMENDMENTS

The articles of agreement may be amended by vote of three-fifths of the Governors exercising four-fifths of the total voting power, except that unanimous approval is required in case of amendments modifying the right to withdraw, the preemptive right to purchase new stock, and the limitation on liability.

ARTICLE VIII—INTERPRETATION AND ARBITRATION

Questions of interpretation of provisions of the articles arising between a member and the International Finance Corporation or between members are to be submitted to the Board of Directors, and may be appealed to the Board of Governors. Disagreements between IFC and a former member may be submitted to arbitration.

ARTICLE IX—FINAL PROVISIONS

The articles are to enter into force when accepted on behalf of not less than 30 governments whose subscriptions comprise not less than 75 percent of the total subscriptions, but not before October 1, 1955. Participation in the International Finance Corporation is evidenced by signature of the articles and by depositing with the International Bank a statement setting forth that a government has accepted the articles in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under the articles. The articles will remain open for signature by the countries specified until December 31, 1956.

SECTION BY SECTION ANALYSIS OF THE BILL

The bill contains nine sections. They are summarized briefly below, with references to major changes from the provisions of the Bretton Woods Agreements Act (59 Stat. 512; 22 U. S. C. 286–286k) which relate to the International Bank for Reconstruction and Development.

SHORT TITLE

Section 1.—The first section provides that the act may be cited as the International Finance Corporation Act.

MEMBERSHIP

Section 2.—The President is authorized, by section 2, to accept membership for the United States in the Corporation. The effect of this section is to give congressional approval to the articles of agreement proposed by the Executive Directors of the International Bank.

GOVERNOR, DIRECTOR, AND ALTERNATES

Section 3.—This section makes the United States Governor and his alternate and the United States Executive Director and his alternate, of the International Bank, Governor, Director, and alternates, respectively, for the Corporation. This is required by the articles of agreement of the Corporation. The Governor and his alternate, who serve 5-year terms, and the Executive Director and his alternate, who serve

2-year terms, are nominated by the President and confirmed by the Senate. The Governor and his alternate receive no compensation from the bank or the Corporation, while the Executive Director and his alternate are paid by the bank and the Corporation. None of these officials may, under section 3 (c) of the Bretton Woods Agreements Act, receive any compensation from the United States for their services in these capacities.

NATIONAL ADVISORY COUNCIL

Section 4.—This section makes the provisions of section 4 of the Bretton Woods Agreements Act with respect to the International Bank applicable to the Corporation. That section created the National Advisory Council on International Monetary and Financial Problems, to recommend general policy directives to the President for the guidance of the United States representatives to the International Monetary Fund, and the International Bank, and United States agencies making foreign loans or participating in foreign financial exchange, or monetary transactions, to coordinate the policies and operations of these officials and agencies, and to determine, under the general direction of the President, whether or not to give or refuse the approval, consent, or agreement of the United States when it is required before any act may be done by the fund or the bank. (See sec. 5 for actions not to be taken without authorization by the Congress.) In addition, the National Advisory Council submits semi-annual reports and biennial reviews and recommendations on the activities of the fund and the bank, which under this section would also cover the Corporation.

AMENDMENTS

Section 5.—Fundamental changes in the Corporation or in the participation of the United States in the Corporation are prohibited by section 5 unless the Congress approves them. The following are prohibited except with the authorization of the Congress: (1) Any subscription by the United States to additional shares of stock of the Corporation, (2) the acceptance of any amendment to the articles of agreement, (3) any loan to the Corporation by the United States or any agency of the United States, and (4) voting on behalf of the United States for an increase in the capital stock of the Corporation. As the vote of the shares of the United States would be necessary for an amendment to the articles of agreement or an increase in the capital stock (except in the case of additional stock up to 10,000 shares to be issued to new members), such changes could not be effected without the approval of the Congress. Comparable restrictions on actions with respect to and under the articles of agreement of the bank were imposed under the Bretton Woods Agreements Act.

DEPOSITORIES

Section 6.—The Federal Reserve banks are required, on request, to act as depositories or fiscal agents of the Corporation, and in so acting they will be supervised and directed by the Board of Governors of the Federal Reserve System.

SUBSCRIPTION AND DIVIDENDS

Section 7 (a).—This section authorizes the Secretary of the Treasury to issue United States Government bonds and to use the proceeds to pay the United States subscription of \$35,168,000 (out of a total of \$100 million). This is the usual method of providing capital for investment in Government corporations, and was used for providing funds for the United States subscription to the International Bank.

Section 7 (b).—This requires that money received by the United States as dividends from the Corporation is to be paid into the general fund of the Treasury, which can only be used in accordance with appropriations by the Congress.

LITIGATION

Section 8.—Whenever the Corporation is a party to litigation in the United States, the district courts of the United States will have jurisdiction to try the case. Removal of cases where the Corporation is a defendant from a State court to a Federal court is also authorized.

STATUS, IMMUNITIES, AND PRIVILEGES

Section 9.—This section gives full force and effect in the United States, its Territories, and possessions, to the provisions of article VI of the articles of agreement, which confer upon the Corporation the same legal status and immunities and privileges given to the International Bank under the Bretton Woods Agreements Act (set forth above).

